

Year-To-Date Reconciliation Spreadsheet - 2006 Procedures

**Office of Financial Management
Accounting Division
Payroll Consulting
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YEAR-TO-DATE RECONCILIATION SPREADSHEET PROCEDURES

2006 Enhancements:

- Updated pay dates on the Employer tab to reflect 2006 pay dates.
- Updated all pertinent dated from 2005 to 2006.
- Updated procedure to clarify Worker's Comp Sick Leave Buyback (Step 5)

For questions or comments regarding this OFM designed Spreadsheet, all questions should be directed to:

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Always email when faxing to OFM

Due to OFM's need to be off site working on HRMS, assistance will be facilitated by emailing problem details and, if necessary, attach the affected YTD Spreadsheet. **Do not hesitate to ask for help sooner than later.**



YEAR-TO-DATE RECONCILIATION SPREADSHEET PROCEDURES

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Procedures for the Year-To-Date Reconciliation Spreadsheet

By Accounting Division - Payroll Consulting

Overview

Purpose

The Year-to-date reconciliation spreadsheet is used for Year-To-Date (YTD) balancing and 941 reporting. OFM requires that agencies balance their YTD totals for each month. Doing so will help ensure that correct information is being reported to the Internal Revenue Service (IRS). OFM recommends this task be done on a timely basis each month after the 25th payroll. To assist agencies, OFM has developed this YTD reconciliation tool and supports the product and any related questions.

Format

The Year-to-date reconciliation spreadsheet is an EXCEL software file. The file is designed to contain one calendar year of data. OFM provides a new file to customers at the beginning of each new year. Agencies must use the updated version each year. The file contains worksheets for each month's payroll activity, quarterly IRS Form 941/Schedule B preparation, and year end reconciliation of IRS Forms 941/941C to W-2/ W-2Cs. If additional lines are required please contact OFM. OFM does not recommend copying and pasting lines. If an agency would like to decrease the number of lines (rows) please use the HIDE function. OFM does not recommend deleting lines. This can cause the elimination or incorrect formulas in formatted cells.

Process

Payroll source documents will be used to post the Year-To-Date Reconciliation Spreadsheet and will be used to reconcile and balance employee Year-To-Date file data as well as employer costs. Data entry is done in the unlocked yellow highlighted cells of each worksheet. Many cells within the worksheet have calculated formulas. These cells are locked thus protected within the worksheet. However, there are occasions that require automatically calculated fields to be manually overwritten. An example of this would be reducing or eliminating an entry in Gross Subject to OASI (Social Security) for system cancelled warrants that have amounts that are not subject to OASI. Automatically calculated fields may also need to be overwritten when making adjustments for manual warrant issues or cancellations.

Protection

The worksheets are distributed to agencies by OFM in a protected mode without the use of a password on the monthly worksheets. The 941 worksheet and Forms 941and Schedule B have a password protection, if you require manual entry on these worksheets please contact OFM Payroll Consulting. This means the cells and graphic objects that are locked are protected and cannot be changed. This allows the tab to stop on the unlocked data entry cells only highlighted in yellow, thus eliminating entry into a formatted cell in error and increasing speed in data entry. Protecting the worksheet without a password allows you to remove the protection without OFM approval/assistance. However, it is recommended during normal data entry to maintain the worksheet in protection mode.

Remove protection from an individual worksheet

Switch to the worksheet you want to return to full access. On the **Tools** menu, point to **Protection**, and then click **Unprotect Sheet**.

Re-protect an individual worksheet

Switch to the worksheet you want to return to data entry only access. On the **Tools** menu, point to **Protection**, and then click **Protect Sheet**. When prompted for password, the **Contents**, **Objects** and **Scenarios** box should be checked for the worksheet.

To prevent others from removing worksheet protection, type a [password](#), click **OK**, and then retype the password in the **Confirm Password** dialog box. Passwords are case sensitive. Type the password exactly as you want to enter it, including uppercase and lowercase letters.

If you assign a password, write it down and keep it in a secure place. **If you lose the password, you cannot gain access to the protected elements on the worksheet.**

Payroll Data: Gross to Net Pay - Columns 1-11

The following payroll data is input directly from **Payroll Registers:**

Reference Column:

Date

- Date is an auto fill cell formatted from the official state pay date entered on the **Employer** tab. The date appears when data is entered into Column 1, Gross Earnings. (If the date field is overwritten this could cause the amounts calculated in the quarterly Schedule B to be incorrect or blank. Do not override this formula.)

PR#

- Enter the 3-digit payroll number located on the top left corner of the payroll register. The payroll number always starts with a “P” (Ex: P001) it’s not necessary to enter the P.

Sub Agency

- If applicable, enter the Sub Agency. Sub agencies are specific to each individual agency and can be up to three characters in length. Not all agencies have sub agency breakouts. Examples are “Y34” or “2.” If an agency does not have subagencies, this field can also be used to indicate which stagger the payroll register is ran. Example: **WC, A, B, or S** for Warrant Cancellation, Stagger A, B or Special.

System Cancelled Warrants and EFTs (first system payroll processed each pay period)

- System cancelled warrants and EFTs will be assigned their own payroll number. A Warrant Register (HRISD Form A1) will be printed and sent with the main stagger. The net pay amounts shown on this Warrant Register will be negative. Manual warrant cancellations are entered in Step 8.
- A warrant register dated February 3, 2003 would be cancelled against the February 10 payroll and is the auto fill date. No entry is required in the date column.
- Enter the Payroll Number In the PR# column
- Enter the net pay amount of the Warrant Register in Column 1. **This amount will be a negative number.**
 - Columns, 3, 11, 16, 18, and 20 will automatically be calculated. You do not need to enter anything in these columns.

Note: Verify that all amounts from the cancelled warrant or EFT were subject to FIT, OASI, and or/Medicare. If not, you may need to adjust the entries in columns 16, 18, and 20 manually. (Example: VEBA payments, warrants for deceased employees, etc.)

Payroll Data: Gross to Net Pay - Columns 1-11 (continued)

Payroll Register Data

- Use the grand total page on the Payroll Register to enter data in the following columns:
 - 1: Gross Earnings
 - 2: Allowances (combined total for both taxable and non taxable). If there are no allowances on this payroll, leave the amount as zero. (See Step 2 to back out the non-taxable allowances.)
 - 3: Gross Engs + Net Tx Allow is automatically calculated. You do not need to enter anything in this column. Gross earnings and allowances are added together to compute Year-To-Date gross earnings. There are reconciliation instructions later in this procedure.
 - 4: Medical Aid
 - 5: Withholding (Federal Income Tax)
 - 6: OASI (Social Security)
 - 7: Medicare
 - 8: Retirement (standard tax deferred employee deduction)
 - 9: Miscellaneous Deductions (total amount) Note: Miscellaneous Deductions for adjustments to Medical Aid (0010), Withholding (0040), OASI (0050) and Medicare (0060) are not included in this column. These amounts are part of the totals listed in their respective columns. However, in Step 3, any deferred retirement deductions/refunds are transferred out of Column 9, Misc Deductions into Column 8, Deferred Retirement and then automatically added to Column 15, Total Deferral.
 - 10: Advanced Earned Income Credit (listed as EIC on the Payroll Register) – could be a negative or positive figure – be careful to post the correct sign.

Net Pay

- **Column 11 (Net Pay) is automatically calculated. You do not need to enter anything in this column.**
 - Verify the amount calculated in the Net Pay column against the payroll register.
 - If the net pay calculated on the Year-To-Date Reconciliation Spreadsheet does not balance with the net pay on the Payroll Register, there is an input error. Recheck data and make necessary corrections.

Federal Income Tax Deferrals – Columns 12-15

Tax deferrals are input directly from the appropriate **Miscellaneous Deduction Register(s) (MDRs)**.

Deferred Compensation, Dependant Care, and Pretaxed Health Insurance

- Enter data in the following columns:
 - 12: Deferred Compensation
 - 13: Dependent Care
 - 14: Pretaxed Health Insurance (employee deductions only)

Note: The total pretaxed health insurance amount for each payroll will be listed with Miscellaneous Deduction Code 0701 (if present) or the last health insurance carrier (highest numerical order). Miscellaneous Deduction Code 0902, when used, is only for taxed health insurance adjustments.

Warning:

The HRISD system's designated total pre-tax amount on the MDR **is not correct** if your agency has non tax qualified Same Sex Domestic Partner taxed (post-taxed) deductions. Instructions for Same Sex Domestic Partners non-pre-tax deductions are listed in Step 6A & Step 6B. These steps must be completed to correct the HRISD provided pre-tax totals on the MDRs.

- **Column 15 (Total Deferral) is automatically calculated. Columns 8, 12, 13, and 14 are added together.** You do not need to enter anything in this column. Column 8 is included because the standard retirement deductions are tax deferred (not currently subject to federal income tax withholding). See instructions later in the procedures for entering Tax Deferred additional retirement in arrears miscellaneous deductions.

Note: Other instructions involving Column 8, Deferred Retirement, are in Step 3. If your agency used deferred retirement miscellaneous deduction codes in the 1600 series, adjustments to the Spreadsheet are necessary.

Note: If more agency unique deferred deductions are needed (401k, etc.) call OFM Payroll Consultants for assistance. Contact information is listed at the end of this procedure.

Skip to and complete:

Employer Costs – Columns 21-25

Employer costs in Columns 21 and 22 are automatically calculated fields driven from the employee costs entered in Column 6 EE OASI and Column 7 EE Medicare. Columns 23 through 25 are input directly from various source documents. **Column 21 and 22 must be reconciled to the source documents listed below because an MDR might have a different figure due to a transaction that this auto fill process can't know.**

OASI, Medicare, Retirement, Medical Aid, and Health Insurance

- See below for a detail of the column function and source document for data entry when required. (Note: EE = **Employee**, ER = **Employer**)

<u>Employer Cost (Sub object noted)</u>		<u>Source Document</u>
• 21: BA – OASI	Auto field	EE/ER Mandatory Deduction Report
• 22: BH – Medicare	Auto field	EE/ER Mandatory Deduction Report
• 23: BB – Retirement		EE/ER Mandatory Deduction Report
• 24: BC – Medical Aid		Accrued Payroll Deduction Voucher
• 25: BD – Health Insurance*		Miscellaneous Deduction Register (MDR)

- * **Note: An MDR that shows both the employee and employer amounts due to Health Care Authority (State Share MDR) is produced each month. Enter the total of the employer column only. The employer portion can be confirmed with the HRISD Journal Voucher (JV) that charged the employer health insurance contribution to the operating account. The JV explanation on the bottom left of the JV will say “To record employer share ins on warrant reg no. Pxxx dated mm-dd-yy.**

Tax Liability and Deposits – Column 26 & 27

Column 26 Tax Liability:

The tax liability column is an automatically calculated field. This field adds Columns 5, 6, 7, 21, and 22. This field is used to prepare the IRS Schedule B form. This field is also used and automatically calculated when increasing the liability for MANUAL warrant issues and reducing the liability for MANUAL warrant cancellations.

Column 27 Tax Deposits:

There are two ways to make payroll tax deposits. Spreadsheet posting instructions depend on which deposit methods were used during a month:

- (1) Automatically prepared JV by the Payroll System sent through the Office of the State Treasurer (OST)
 - ♦ **To post system generated tax deposits, input directly from the Taxlink (TXL) JV (actual EFTPS tax transmission to IRS) associated with that payroll.**
- (2) Manual deposits (via JV or warrant) agencies submit directly to the Office of the State Treasurer (OST). OST is the office that makes the actual transmissions to the IRS.
 - ♦ **To post manual deposits, input amounts from the agency manual JV or check sent to OST. (Note- Use Step 7 for Manual Deposits.)**

The following 2 reconciliations are required *prior* to entering the above data:

First reconciliation – Federal Tax MDRs

Verify that the total taxes to be posted to the spreadsheet equal the applicable TXL JV associated with the same payroll(s)' MDRs. This reconciliation will ensure the amounts computed for all three tax types equal the TXL JV before posting because the JV is evidence of the actual dollar amount sent to the IRS.

This amount should match the Tax Liability in Column 26, unless a refund is due.

- The first three characters of the JV number are TXL.
- The last three characters of the JV number are the same as the Payroll Number.
- There is a JV for each payroll. Each payroll must be reconciled.

Note: **If there are any negative numbers on the Employee/Employer Mandatory Deduction Report, special care must be taken** to ensure that the amounts that were *actually deposited* are input in the Year-To-Date Reconciliation Spreadsheet. Be sure to use the report that lists the W/H Tax, OASI, and Medicare taxes. *There may be more than one payroll included on the report:*

- **Calculate the net taxes by tax type (income tax, social security, and medicare).**
- **Each tax type must be looked at separately:**
 - If the net of a tax type is **greater than zero (a positive number)**, a system deposit was made for that tax type.
 - Post the net positive amounts by corresponding Payroll Register Number to the Year-To-Date Reconciliation Spreadsheet for that tax type.

Tax Liability and Deposits – Column 26 & 27 (continued)

Column 27 Tax Deposits – continued:

- If the net of a tax type is **less than zero (a credit)**, a system deposit was not made for that tax type. The system does not electronically transmit tax deposits for negative amounts.
- Do not post this credit amount to the Year-To-Date Reconciliation Spreadsheet for that tax type. **You will need to ask the IRS for a refund on the Form 941 for that quarter.**

If this situation comes up, call OFM Payroll Consulting for assistance. Contact information is listed at the end of this procedure.

To post agency manual deposits:

Manual tax deposits made through OST are input to the Spreadsheet from the agency JV sent to OST:

- Input in the Manual Adjustments section of the Year-To-Date Reconciliation Spreadsheet. See instructions for Steps 7 and 8 (manual changes) later in this procedure.

Second reconciliation – Form 941 – Schedule B

A second reconciliation will ensure that the total deposits for the TXL JVs plus any manual JV deposits equal the amounts and dates in the Schedule B that is sent with the IRS Form 941. This reconciliation is done while completing the IRS quarterly Form 941 and Schedule B.

Any difference between the tax amounts listed in Column 26 - Tax Liability and Column 27 - Tax Deposits should equal the net negative tax deductions for which an IRS refund is requested, not counting manual changes.

Tax Liability and Deposits – Column 26 & 27 (continued)

Tax Deposit File Retention

In order to have all of the necessary data to ensure that the Schedule B stating the tax liabilities will be completed correctly, a tax deposit file should be maintained for each quarter. The following documentation must be kept in the tax deposit file:

- Copies of all Employee/Employer Mandatory Deduction Reports for each payroll
- Copies of HRISD produced TXL JVs
- Tax deposit reconciliation
- Copies of documentation of manual warrant issues
- Copies of JVs sent to OST by the agency for manual tax deposits
- Copies of documentation of manual warrant/EFT cancellations

Form 941/Schedule B Tax Liability Completion:

- The monthly tax deposit total in Column 27 should match the respective monthly liability total in Column 26 and on the Schedule B, except when negative tax deductions or other manual adjustments have caused an over or under deposit situation. Column 26 will *calculate the actual liability for the Schedule B* – this includes tax effects of manual warrant issues, warrant/EFT cancellations, and overpayment adjustments.
- On the Schedule B, be sure the entered tax liability for each payroll cycle is on the appropriate payday. Use the paydates listed on the spreadsheet (which should agree with the Payroll Register). Do not use the dates on the Employee/Employer Mandatory Deduction Report. The dates listed there are the payroll run dates, not pay dates.
- For manual deposits, agencies submit the IRS payment via an agency JV directly to OST. Enter the deposit amount on the date that the warrant was issued to the employee in Step 7. Caution! See IRS Publication 15 (circular E) for IRS deposit deadline schedules. If issuing the warrant the same day as payday, you will need to make a deposit with OST by the next banking day if your adjusted combined tax liability is \$100,000 or over for that payday. If the warrant is issued (made available) on a non-state payday **enter the date mm/dd/yy** in the date field the warrant was issued in Step 7. This will increase the liability on the Schedule B for the date entered. This step must be taken for the liability entry to be added to the Schedule B. **Do not enter text in the date field.** (Contact OFM Payroll Consulting if there any questions.)

Gross Subject to Income Tax, OASI, and Medicare – Columns 16, 18 and 20

Several transactions in the spreadsheet will affect these columns.

Column 16 (Gross Subject to Withholding) is automatically calculated. No entry is required.

- This amount is obtained by subtracting the federal income tax deferred or nontaxable deductions from Gross Engs + Net Tx Allow (Column 3).
- Column 16 is calculated by subtracting Column 15 from Column 3.

Column 18 is automatically calculated. No entry is required.

- This amount is obtained by subtracting the amounts not subject to Social Security from Gross Engs + Net Tx Allow (Column 3).
- Note: **Gross Subject to OASI** will be overstated until the Non OASI and Non Medicare amounts are input. This will not take place until the end of the month when the **HRISD Wages Not Subject To Social Security Report** is received and the correct monthly data are entered on the spreadsheet.

Column 20 is automatically calculated. No entry is required.

- This amount is obtained by subtracting the amounts not subject to Medicare from Gross Engs + Net Tx Allow (Column 3).
- Note: **Gross Subject to Medicare** will be overstated until the Non OASI and Non Medicare amounts are input. This will not take place until the end of the month when the **HRISD Wages Not Subject To Social Security Report** is received and the correct monthly data are entered on the spreadsheet.

Gross Subject to Withholding =	Gross Engs + Net Tx Allow (Column 3) less: Deferred Retirement (Column 8) less: Deferred Compensation (Column 12) less: Dependent Care (Column 13) less: Pretax Health Insurance (Column 14) less: VEBA (Step 4)
NOTE: Total Deferral (Column 15) = Total of Columns 8, 12, 13, and 14. The Spreadsheet calculates Gross Subject to Withholding by subtracting Column 15 from Column 3.	

Gross Subject to OASI =	Gross Engs + Net Tx Allow (Column 3) less: Dependent Care (Column 13) less: Pretax Health Insurance (Column 14) less: VEBA (Step 4) less: Amounts over the Maximum Taxable Earning for Social Security (\$94,200 for 2006)
NOTES: Gross Subject to OASI is not correct until Non-OASI Wages are backed out per the HRISD Wages Not Subject to Social Security Report. Some employees' entire wages are not subject to OASI.	

Gross Subject to Medicare =	Gross Engs + Net Tx Allow (Column 3) less: Dependent Care (Column 13) less: Pretax Health Insurance (Column 14) less: VEBA (Step 4)
NOTES: Gross Subject to Medicare is not correct until Non-Medicare Wages are backed out per the HRISD Wages Not Subject to Social Security Report. Some employees' entire wages are sometimes not subject to Medicare.	

Noncash Adjustments (Step 1) – Adjustments to Columns 16, 18, and 20

Taxable Fringe Benefits (TFB):

The Gross Subject to Withholding Column 16, Gross Subject to OASI Column 18, and Gross Subject to Medicare Column 20 on the YTD Spreadsheet need to be increased for all **TFB** amounts *taxed in the payroll system but not paid via the payroll system*.

The total gross of the value of taxable fringe benefits, *excluding SSDP*, will be the amount that will be input into these columns because up to this point, the value of these taxable fringe benefits have not been accounted for in the Spreadsheet.

Step 1 should not include amounts for SSDP because this is done in steps designed solely for SSDP - Step 6A and 6 B.

Examples of taxable fringe benefits entered in Step 1 are:

- The value of employer provided vehicles for commuting
- The value of meals under the “3-hour rule”

Employees are taxed only for Fringe Benefits through the payroll system in 2 ways.

1. **Using the HRISD A.72 Adjustments to Gross Screen**
 - No A.08 adjustments are required if done correctly
 - **OFM strongly recommends** the use of the A.72 screen process whenever possible.
2. **Manually taxing the employee using the HRISD A.75 Voluntary Deductions screen**

Two steps are required to complete the manual process. Agencies must be sure to perform both steps in the same calendar month or an out of balance between Wages Subject and actual taxes will occur. This method is a high-risk situation because agencies tend to forget to complete either of the steps or both in the same calendar month. Call OFM Payroll Consulting if this problem occurs.

Step (1): A.75 Deductions for the following must be calculated and input in the system

- 0040 Additional Withholding
- 0050 OASI
- 0060 Medicare

Warning: If an employee has reached maximum Social Security (SS) wages prior to or during the addition of the TBF, a manual adjustment is required in Step 1, Column 18 Gross Subject to OASI. Contact OFM Payroll Consulting if there questions.

Step (2): A.08 Adjustments are required to the following:

- a. Gross Earnings
- b. Gross Subject to OASI qtr X
- c. Gross Subject to Medicare qtr X

OFM **does not recommend** manually taxing the employees on the A.75 screen if the A.72 method is available. Manual calculations are required which enhances the possibility for potential errors and puts agencies at risk for possible penalties. ALWAYS contact the HRISD Help desk prior to using this method.

Noncash Adjustments (Step 1) (continued)

Using the A.72 HRISD Payroll System to Tax Fringe Benefits:

The relevant field names on Screen A.72 are:

- Non-cash Gross Perm
- Non-cash Gross Nonperm
- Non-cash Gross Ret

NON-CASH GROSS PERM is the field that was added to allow agencies to enter the taxable fringe benefit amount for the Same Sex Domestic Partner/Children coverage. This field is subject to Federal Income Withholding, Social Security, and Medicare taxes but is not subject to Retirement. It will be included in the NON-CASH GROSS area on the Earning Statements and will be shown in the appropriate NON-CASH fields on the A.08 - YTD Adjustment Screen, Year-To-Date Register, and other Year-End Reports. The information in this field will remain on file until you remove the amount entered; it will **not** clear with each payroll process **Note: See Step 6A and 6B Same Sex Domestic Partner/Children entries.**

NON-CASH GROSS NON-PERM is another field that was added to allow agencies to enter other non-permanent types of taxable fringe benefits. This field is subject to Federal Income Tax, Social Security, and Medicare taxes but is not subject to Retirement. This field will clear after payroll processing is complete.

NON-CASH GROSS RET should only be used to enter the taxable value of **employer provided vehicles**. In addition to the other taxes, **this field is subject to retirement for PERS 1 and TRS 1 employees ONLY.**

Note: All the above entries do not require additional entries in the HRISD system as the respective taxes were already collected through a payroll process and included on the Spreadsheet when the applicable payroll register was posted. The amounts reflected in the payroll register are the additional taxes only. The non-cash gross amounts are not in the payroll register wage totals so an adjustment must be made in the Spreadsheet to add the Gross Wages Subject to federal income tax, social security, and Medicare.

Noncash Adjustments (Step 1) (continued)

Taxable Fringe Benefits (TFB) (continued):

NonCash Spreadsheet Adjustment (Step 1):

- After each payroll, enter the total gross TFB amounts that were entered on screen A.72 for the pay period in Column 16, “Gross Subject To Withholding”, not including SSDP (See Step 6A and 6B)
- Gross Subject to OASI and Gross Subject to Medicare will automatically be adjusted by the amount entered in Column 16. No entry is required in these columns.

NOTE: The agency method(s) to determine the processed Noncash amounts to post are:

- Keeping a manual log of all noncash activity. This log should balance to the Noncash Tot Column in the YTD Register.
- From the YTD Registers subtracting the current month’s Noncash Tot Column from the previous month’s Noncash Tot column. Note: If you are not keeping a manual log of noncash activity, you will not be able to prove that the noncash activity is correct.
- On-Demand AFRS Reports (check out Fastrack applicability) applicable to your agency expenditure coding.

Agencies may request OFM Payroll Consulting to review IRS compliance for taxation of specific fringe benefits or the agency’s method to ensure accuracy and reconciliation of Noncash items.

Non-Taxable Allowances (Step 2) – Adjustment to Column 3

Not all agencies will have allowances, or if so, any nontaxable allowances. Complete this step after each payroll if the agency pays allowances that are not subject to Federal Income Tax, Social Security, and Medicare. Each type of allowance is assigned an Allowance Code in the Payroll System. Each allowance code is flagged 'Yes' or 'No' for the following:

- Subject to Federal Income Tax
- Subject to Social Security/Medicare
- Subject to Retirement

An example of a nontaxable allowance would be Allowance Code 1200, Tool Allowance. An example of a taxable allowance would be Allowance code 1310, Taxable Meals – In State. Refer to the HRISD help documentation accompanying HRISD Screen A.73 which displays the parameters on each allowance code. To access the help documentation, the A.73 screen must be active. Press 'F1' while the cursor is on the second line underneath the Code field. ***Agencies are to use correct allowance codes depending on the unique agency use of an allowance code. Do not start using an allowance code without fully understanding the situation and whether the agency situation calls for a taxable or nontaxable allowance or if the allowance is subject to retirement. Please contact OFM Payroll Consulting prior to using a new allowance code for your agency.***

Step 2:

The only allowance totals that are required in Column 3 of the Year-To-Date Reconciliation Spreadsheet are taxable allowances. The spreadsheet must compute using allowance amounts that are subject to taxes only. The allowance totals entered from the payroll register are a combination of taxable and nontaxable. Therefore, all nontaxable allowances must be backed out. Recheck totals to ensure only taxable allowances are included in Column 3 totals.

- To input the correct amount in Column 3, you will need to determine which allowances your agency pays are taxable or non taxable. Keep subsidiary ledgers for each type of allowance code that's paid. Each subsidiary ledger should list whether or not the allowance is taxable. The cumulative total of all subsidiary ledgers should balance to the HRISD monthly Year-To-Date Report.
- In Column 3, enter the total **nontaxable** allowance amount for each payday as a debit. Columns 16, 18, and 20 are automatically reduced. This step will remove the nontaxable amounts so the net allowances addressed on the Spreadsheet will only be the taxable allowances.

Retirement Arrears Adjustments (Step 3) – Adjustment to Column 8

If an employee owes extra money or is due a credit for retirement contributions, an arrears adjustment is processed through the Payroll System. Arrears adjustments are for prior periods and are processed through the Payroll System using certain deferred retirement (deductions on or after September 1, 1984) or nondeferred (deductions on or before August 31, 1984) Miscellaneous Deduction Codes.

It is important to note that when employees owe retirement contributions, or they are due a refund, you must know if the amount should be tax deferred or not – contact DRS for assistance.

Only the deferred deductions affect Gross Subject to Income Tax, so only these are entered in the spreadsheet. This step reclassifies deferred miscellaneous deductions from Column 9 to Column 8 (Deferred Retirement).

Note: If the arrears adjustment is due to a Worker's Compensation sick leave buyback situation, refer to Step 5 later in this procedure. Do not enter the retirement arrears adjustment in this step.

- Miscellaneous deductions for deferred retirement affect Column 8 because they are tax deferred.
 - **Tax deferred** Miscellaneous Deduction Codes for retirement start with “**16**” (except code 1600*).
 - Miscellaneous Deduction Codes for retirement that are **not tax deferred** start with “**14**,” (except code 1600* mentioned earlier.)
- Post each payroll's MDR for retirement arrears. If there are multiple MDRs because of different plans (Ex: 1636 = PERS Plan 1, 1652 = PERS Plan 2), manually total all the MDRs before posting one line for all the retirement arrears payroll transactions.
 - If the total on the MDR is a debit (DR), post as a positive amount.
 - If the total on the MDR is a credit (CR), post as a negative amount.
- Column 9 Miscellaneous Deductions, Column 15 Total Deferral and Column 16 Gross Subject to Withholding will automatically be adjusted. In order to ensure that the Net Pay amount does not change, the Miscellaneous Deductions in Column 9 are adjusted as an offset to the retirement arrears amounts. The amount of the deferred arrears adjustment directly affects the Total Deferral and Gross Subject to Withholding columns because they are tax deferred and therefore not subject to Federal Income Tax.
- Net pay should not change after Step 3 adjustment.

Note from HRISD help screen - 1600 Deduction Code Special Instructions:

Used only after employee has established arrangement with DRS. Agency must send copy of DRS coupon with warrant & Miscellaneous Deduction Register.

VEBA Adjustments (Step 4) – Adjustment to Column 3

State agencies have the option to allow their employees to participate in a Voluntary Employee Benefit Association (VEBA). Amounts for sick leave cash out due at retirement only are not subject to Withholding, OASI, or Medicare. For agencies that have enacted an approved VEBA policy, an adjustment will need to be made after each payroll for all employees whose sick leave cash out at retirement is sent to the VEBA Trust.

There are federal/state laws that must be followed for an agency to adopt a VEBA plan.

OFM asks agencies who have an approved policy to allow their employees to participate in a VEBA to have OFM Payroll Consulting review before processing VEBAs in the payroll system to ensure compliance with administrative requirements. Also, the HRISD processing tasks are complex so agencies are strongly encouraged to review those tasks with HRISD personnel before input is done.

Warning: Processing VEBA payments in the payroll system requires Year-To-Date adjustments.

Critical: If the Gross Pay field in the A.08 screen is not done either before or after the VEBA payment is processed, Box 1 of the Forms W-2 for the affected employees will be overstated. It will be necessary to file Forms W-2c and W-3c for those employees.

The Spreadsheet VEBA adjustment is:

- Enter the gross VEBA sick leave cash outs in Column 3 with a credit thus reducing Gross Earnings.
- The source document is the MDR(s).
- Gross Subject to Withholding, Gross Subject to OASI, and Gross Subject to Medicare will automatically be decreased because amounts sent to the VEBA Trust are tax-free.
- If a VEBA payment is cancelled, adjustments to Columns 16, 18, and 20 are required. Contact OFM Payroll consulting for questions.

VEBA Reconciliation Task:

The amounts sent to the VEBA Trust during a month must reconcile to the VEBA MDR totals for the month.

Labor and Industries (L&I) Worker's Compensation Sick Leave Buyback (Step 5) - Adjustments to Columns 3 or 8

An injured worker is required to pay back a portion of his/her Worker's Compensation when opting to simultaneously use sick leave and also receive L&I Worker's Compensation payments. Adjustments are necessary in the YTD Spreadsheet, depending on which of the two buy back methods is used. These two methods relate to how the compensation is recovered, either through a reduction in gross pay through the payroll system or by receiving a personal check from the employee. Either way, adjustments are necessary in the YTD Spreadsheet and explained in the following two sections.

References:

WAC 357-31-235 <http://apps.leg.wa.gov/WAC/default.aspx?cite=357-31-235>

WAC 357-31-240 <http://apps.leg.wa.gov/WAC/default.aspx?cite=357-31-240>

WAC 357-31-245 <http://apps.leg.wa.gov/WAC/default.aspx?cite=357-31-245>

SAAM25.40.40 <http://www.ofm.wa.gov/policy/25.40.htm#25.40.40>

Master Agreements <http://www.ofm.wa.gov/labor/agreements/>

Recoveries Via Payroll (Reduction to Gross) – Adjustments to Deferred Retirement - Columns 8, 9, 15, and 16

If the compensation to be recovered is via a reduction in gross pay through the payroll system, income tax, OASI, and Medicare will automatically be reduced through the payroll process. Refer to OFM policy in SAAM 25.40.40.d.(1).

Retirement contributions are to be calculated based on the employee's gross salary before reduction for the time loss compensation payment if the employee elects full service credit and the agency has an agreement with the employee (See SAAM 25.40.40.d.(3)). Otherwise, retirement is calculated on the reduced salary amount.

- Run a PreBalance in the system to find out the retirement contributions that will be deducted from the employee's remaining pay.
- The difference in what the system calculates and what should be taken will need to be deducted as an additional deferred retirement miscellaneous deduction. Use the proper deferred retirement arrears miscellaneous deduction code.
- In the Spreadsheet, enter the amount of the additional deferred retirement deduction taken through the payroll process as a debit amount in Column 8. (See Step 3)
- Miscellaneous Deductions, Total Deferral and Gross Subject to Withholding will automatically be adjusted. To ensure the Net Pay amount does not change, the Miscellaneous Deductions in Column 9 are adjusted as an offset to the deferred retirement amounts that are reclassified to Column 8. The amount of the deferred retirement adjustment directly affects the Total Deferral and Gross Subject to Withholding columns because they are not subject to federal income tax.

Worker's Compensation Sick Leave Buyback (Step 5) - Adjustments to Columns 3 or 8 (continued)

Recoveries Via Personal Check– Adjustments to Columns 16, 18, and 20

If the Worker's Compensation was recovered via personal check, social security and Medicare taxes will need to be refunded to the employee and Year-To-Date adjustments are required. Refer to OFM policy in SAAM 25.40.40.d(2).

Compute OASI/Medicare taxes for the amount of the personal check (buyback recovery.) Federal income tax is not adjusted. The affect of this recovery will be made when the employee files his/her tax return. However, Gross Subject to Withholding is reduced. In a payroll process, using Miscellaneous Deductions codes 0050 (OASI) and 0060 (Medicare), reduce the employee's taxes by entering the calculated amounts **as credits**. **Screen-print the updated A.75 screen for backup.**

- **Make year-to-date adjustments on the A.08 screen to reduce** GROSS EARNINGS, OASI GROSS SUBJECT QTRX, MEDICARE GROSS SUBJECT QTRX, by the amount of the time loss compensation buyback payment.
- Ensure that the year-to-date OASI and Medicare taxes have been reduced by the 0050/0060 deduction code on the A.75 screen in a payroll process to reflect the reduction on OASI and Medicare taxes on the time loss compensation buyback payment. Do not manually adjust the YTD HRISD file actual taxes – this would double the tax adjustment already done in the payroll process. (*Note 0050/0060 deduction codes for tax credits in the payroll process will reduce the employee and employer costs)
- In the YTD Spreadsheet, enter the amount of the personal check buyback **as a credit** in Column 3.
- Gross Subject to Withholding, Gross Subject to OASI and Gross Subject to Medicare will automatically be reduced to delete any not subject to amounts.

Retirement contributions are to be calculated based on the employee's gross salary before reduction for the time loss compensation payment if the employee elects full service credit and the agency has an agreement with the employee (See SAAM 25.40.40.d.(3)). Otherwise, retirement is calculated on the reduced salary amount.

- If the employee elects not to have full service credit, calculate the refund amount
- Use the proper deferred retirement arrears miscellaneous deduction code to credit the employee.
- In the Spreadsheet, enter the amount of the refund credit amount in Column 8. (See Step 3)
- Miscellaneous Deductions, Total Deferral and Gross Subject to Withholding will automatically be adjusted. To ensure the Net Pay amount does not change, the Miscellaneous Deductions in Column 9 are adjusted as an offset to the deferred retirement amounts that are reclassified to Column 8. The amount of the deferred retirement adjustment directly affects the Total Deferral and Gross Subject to Withholding columns because they are not subject to federal income tax.

Non-Taxed Qualified (Taxed) Same Sex Domestic Partners (Step 6A & B)

IRS Section 152 Non-Qualified Dependents

Employees adding coverage for domestic partners/children of domestic partners who do not meet the IRC Section 152 definition of qualified dependents will have additional taxable income, which needs to be taxed and reported. This taxable situation is variously referred to as a post-tax, non-qualified Section 152, or non-taxed transaction. There will be two taxation issues to be addressed.

- **The first taxation issue is the state-share premium paid to the insurance carrier. (Step A)**
- **The second taxation issue is the treatment of the employee contributions for non-qualified dependents. (Step B)**

Effective December 23, 2000, HRISD implemented the system changes for the Domestic Partner/Taxable Fringe Benefit Project. The project provides a mechanism to calculate payroll taxes on the Same Sex Domestic Partner Insurance Benefit and expand the capability of taxing other fringe benefits within the central payroll system.

The "NON-CASH GROSS PERM" field was added to allow you to enter the monthly taxable fringe benefit amount for the **state premium contribution** for medical and dental coverage when enrolling a domestic partner and/or dependent children who are not qualified under IRS Section 152. This field does not clear with each payroll.

Employees can continue to have **deductions for their own portion** of the total contribution **pre-taxed** if they have opted for this choice. However, that portion of the employee's deduction attributable to a non-qualifying dependent(s) will need to be taken on an **after-tax (post-tax)** basis.

Non-Taxed Qualified (Taxed) Same Sex Domestic Partners (Step 6 A) – Adjustments to Columns 16, 18 and 20

Enter amounts on the EE Log for Sec 152 non-qualified partners or other dependents, these amounts will auto fill on each relevant month's spreadsheet.

Amounts entered on the A.72 screen for SSDP state share premiums are added to an employee's YTD totals and the employee is taxed respectively. However, the premium amount is not on the payroll register. Thus the monthly taxable premium is added for each employee on the EE Log under the column entitled Taxable Contribution and Step 6 A will automatically adjust (increase) the fields (columns) on the spreadsheet for Gross Subject to Withholding, Gross Subject to OASI and Gross Subject to Medicare appropriately.

Non Taxed Qualified (Taxed) Same Sex Domestic Partners (Step 6A & B) **(continued)**

Non-Taxed Qualified (Taxed) Same Sex Domestic Partners (Step 6 A) – Adjustments to Columns 16, 18 and 20

YTD Spreadsheet EE LOG - Taxable Contribution:

- ◆ Enter the employee name (optional), monthly amount that is entered on the A.72 screen and eligibility date on the worksheet provided on the EE Log titled “Domestic Partner &/or Non Pretax Health Insurance under the appropriate month.”
- ◆ Enter the amount under the column labeled **Taxable Contribution**. The relevant month’s Spreadsheet will automatically increase columns 16, 18 and 20. (No other entry should be required on the monthly spreadsheet for the taxable state share.)
- ◆ Verify the amount on the HRISD Report HRISD-TFB011P1-R01 titled “List of Employees who are Eligible for Insurance Under Sec152” and/or the agency YTD Report, using the individual employee totals for non cash. Since the YTD report combines all non cash amounts, a tracking log of non cash entries in Step 1 is recommended. The EE log will act as the tracking log for only SSDP entries.

Non Pretax Health Insurance Premiums (Step 6 B) – Adjustments to Columns 14, 16 and 18

Employees who have non-tax qualified dependents under Section 152 may not make pre-tax medical insurance deductions for covered dependents. The employee’s total deduction is combined in the pretax total of the MDR. Therefore, the taxed (post-taxed) portion of the employee’s deduction has to be reduced in Columns 14 Pretaxed Health Insurance, 15 Total Deferred and increased in Column 16 Subject to Withholding. After this adjustment, only the pre-tax portion of the employee’s deduction is reflected in the Pre-Tax Health Insurance totals on the YTD Report. Use the rate tables provided in the HRISD Instructions memo dated November 14, 2002 entitled “Overview of Central Payroll Systems Requirements for Domestic Partners/Taxable Fringe Benefit Entries” along with the Tax Issues memo entitled “Tax Issues Related to Same Sex Domestic Partner Insurance (January 1,2003)” to determine the employee’s non qualified dependents’ taxed portion of the entire medical insurance deduction.

YTD Spreadsheet EE LOG - Employee Contributions for Non Qualified Dependents:

- ◆ Enter the employee name (optional), monthly deduction amount that is taxable on the worksheet provided on the EE Log titled “Domestic Partner &/or Non Pretax Health Insurance under the appropriate month.”
- ◆ Enter the amount under the column labeled **Non Pretax Deduction as a debit**. The relevant month spreadsheet in Step 6B will automatically decrease Column 14 Pretax Health Insurance and Column 15 Total Deferred, and increase Column 16 Gross Subject to Withholding. (No other entry should be required on the monthly spreadsheet)
- ◆ The EE log will act as the tracking log for both of the taxed SSDP entries (taxed state share and taxed portion of the employee deduction).

Deceased Employee Payments After Death (Step 6 C) - Adjustments to Columns 3 and 16

For the current month in which final payment(s) to a deceased employee is processed, **federal income tax is never deducted from the payment made after death**, regardless of whether the payment is made during the year of death or year after death. Refer to IRS Publication 15 and Instructions for Form-1099 MISC for details and reporting requirements. An adjustment must be made in the YTD Spreadsheet for the applicable month to indicate that the gross compensation final payment(s) was not subject to withholding.

If the final payment(s) to a deceased employee will be made in the current calendar year, the wages **are subject to Social Security and Medicare**. However, if final payment(s) are paid out in a future calendar year, then no federal taxes are taken. Refer to IRS Publication 15 and Instructions for Form-1099 MISC for details and reporting requirements.

HRISD Wages Not Subject to Social Security Report (HRISD Report #HRISD-B3101-R01):

This HRISD report has a programming error for deceased payments. For example, a deceased final payment made in the calendar year of death is subject to Social Security and Medicare. This final payment should not appear in the columns noted as Wages Not Subject to Social Security and Medicare. Yet, data is placed in the columns which generally are **credits** representing the amounts paid after the employee passes away. Only true items not subject to Social Security and Medicare such as pretax health insurance or dependant care or wages over the maximum Social Security limit should be indicated.

The OFM Spreadsheet has steps to make corrections for the problem that the HRISD Wages Not Subject to Social Security Report does not report a deceased employee correctly on this report for the Wages Not Subject to Social Security or Medicare if the wage payments made after death are paid in the same calendar year as the death. If payments are made in a calendar year after death, we believe the same correction steps are necessary. *However, we have only had one limited example and are in the process of writing additional detailed instructions.* Call OFM Payroll Consulting if you have this situation!

Deceased Employee Wage Payments

The EE Log calculates and completes the following tasks that must be done to compute the correct reportable wages and taxes to IRS deceased employees:

- (1) Data for death related payments are posted for gross pay, date of death, and date of final payment(s).
- (2) Step 9 allows agencies to just post the cumulate HRISD Report on Wages Not Subject to Social Security and Medicare. The Spreadsheet will subtract the prior month's cumulate data to calculate the current month's data only needed to determine Gross Wages Subject to Social Security and /Medicare.

Data from the EE Log for deceased will correct the HRISD Report data for deceased. The HRISD's programming error is corrected in Step 9. The deceased employee information is entered only once in the month the final payment(s) occurred on the EE LOG. The YTD total for deceased employees will carry forward to the bottom of the spreadsheet on the Total Deceased line. In Step 9, the monthly total for Non OASI, and Non Medicare Wages calculates current month plus gross YTD deceased total, less prior month. This is an automatically calculated field in step 9. No entry is required on the monthly Spreadsheets. Refer to Step 9 instructions.

Deceased Employee Payments After Death (Step 6 C) - Adjustments to Columns 3 and 16

YTD Spreadsheet EE LOG:

- ◆ On the EE Log enter the employee name, gross pay, date of death and the date of disbursement of final payment(s) in the appropriate columns.
- ◆ Enter the amounts paid as a debit under the worksheet table labeled Deceased Employees and in the appropriate month. The gross pay entry will automatically reduce Column 3 Gross Earnings and Column 16 Gross Subject to Withholding for the gross pay of the final payment(s) after death. The gross pay entry will be used to calculate and correct the HRISD monthly report for Wages Not Subject to Social Security and Wages Not Subject to Medicare in Step 9.
- ◆ The gross pay amount entered on the EE Log can be used for tracking purposes to complete Form 1099-MISC. Gross pay must be reported on the 1099 – see IRS Instructions for Form 1099-MISC.

If the final payment(s) to a deceased employee will be made in an ensuing calendar year, the wages paid in the ensuing calendar year are also not subject to Social Security or Medicare. Refer to IRS Publication 15 for details.

YTD Spreadsheet EE LOG:

- ◆ On the EE Log enter the employee name, gross pay, date of death and the date of disbursement of final payment(s) in the appropriate columns.
- ◆ Enter the amounts paid as a debit under the worksheet table labeled Deceased Employees and in the appropriate month. The gross pay entry will automatically reduce Column 3 Gross Earnings and Column 16 Gross Subject to Withholding. The gross pay entry will be used to calculate and correct the gross pay and is used in calculating the monthly Wages Not Subject to Social Security and Wages Not Subject to Medicare in Step 9.
- ◆ Because Gross Subject to OASI and Gross Subject to Medicare are reduced in Step 9 assuming the payment(s) after death will normally be paid out in the same calendar year as the death, when the payment(s) are made in a calendar year after death, a manual entry is required in Step 6C to increase Column 17 Non OASI Wages and Column 19 Non Medicare wages and to reduce Column 18 and 20 Gross Subject to OASI and Medicare. This action corrects back out the normal correction built into the Spreadsheet to take care of the error on the HRISD Wages Not Subject to Social Security Report. Call OFM Payroll Consulting if there is any question on this procedure.
- ◆ The gross pay entry entered on the EE Log can be used for tracking purposes to complete Form 1099-MISC. Gross pay must be reported on the 1099 – see IRS Instructions for Form 1099-MISC.

Manual Adjustments – Changes Made In Year-To-Date File (Steps 7 and 8)

There are certain transactions that must be manually entered in the HRISD Year-To-Date File. **Manual YTD file adjustments should be completed before the 23rd of the current month** to be reflected in the report totals on the YTD Report and Wages Not Subject to SS report. Otherwise, the adjustment will need to be input in the next following month, except December. Adjustments that need to be made after December closes will need to be done manually. This may involve completing IRS Forms 941c, W-2c, or W-3c. Note Steps 10 and 11 later in this procedure. Adjustments may include:

- Manual warrant issues (Step 7)
- Taxes deducted manually (codes 0040,0050,0060) for taxable fringe benefits (step 7 or 8)
- Manual warrant/EFT cancellations (Step 8)
- Overpayments not collected through the system (Step 8)
- Other Year-To-Date File changes as needed (Step 7 or 8)

Note: Agencies may need to enter data in Column 27, Tax Deposits, if they make a deposit in the current year for a previous year's return. This will require an IRS Form 941c to be filed with the current quarter's return and the date on the current Schedule B would be the Discovery Date from the Form 941c. Refer to specific procedures later in this handout on where/how to make changes for prior calendar year activity. Call OFM Payroll Consulting if there are any questions with prior calendar year adjustments.

Manual transactions must always require additional entries in the Year-To-Date Reconciliation Spreadsheet. The following guidance is provided to assist with these adjustments.

The following columns may be affected for the following types of adjustments:

Manual warrant issues, Manual warrant/EFT cancellations, and overpayments not collected through the system:

- For **manually issued warrants**, you will need to **increase** the amounts in the affected columns listed below.
- For **manually canceled warrants/EFTs**, you will need to **reduce** amounts in the affected columns listed below exactly as they were posted.
- For **overpayments not collected through the payroll system**, you will need to **reduce** the amounts in all affected columns listed on the following pages.
 - **Caution!** Year-To-Date overpayment adjustments should not be made until the employee has paid back the entire amount owed OR a partial repayment adjustment at year end. **Refer to IRS Publication 15 (Circular E/Wage Repayments)**. In addition, you will need to update the Year-To-Date Reconciliation Spreadsheet and HRISD report for the affected year(s). See Steps 10 and 11 later in this procedure. There are extensive federal regulations, state policies, and accounting/payroll issues with overpayments. Call OFM Payroll Consulting if there is any doubt as to the proper overpayment/repayment procedures.
 - **If the repayment is made in any other calendar year**, IRS Forms 941c, W-2c, and W-3c are required in the year the repayment is made. Reimbursement of prior calendar year overpayments cannot be directly offset against another calendar year gross wages.
- For each column in the following list, amounts could be debits (positive) or credits (negative), depending on the action being taken.

Manual Adjustments – Changes Made In Year-To-Date File, Changes Made To Noncash Gross (Steps 7 and 8) (continued)

Manual warrant issues, Manual warrant/EFT cancellations, and overpayments not collected through the system (continued):

<u>Column Number</u>	<u>Title</u>	<u>Comments: Decide if a Debit (increase) or Credit (decrease)</u>
1	Gross Earnings	Enter the gross amount of the warrant/EFT.
2	Allowances	Enter only if the employee had allowances paid. Enter the combined total for both taxable and non taxable allowances.
3	Gross Engs + Net Tx Allow	Automatically calculated. You do not need to enter anything in this column. Gross earnings and allowances are added together to compute Year-To-Date gross earnings. Note: Back out any nontaxable allowances.
4	Medical Aid	Enter the employee share of any Medical Aid.
5	Withholding (FIT)	Enter any Withholding (Federal Income Tax) amount.
6	OASI (Social Security)	Enter the employee share of OASI (Social Security).
7	Medicare	Enter the employee share of Medicare.
8	Deferred Retirement	Enter the employee share of Retirement.
9	Miscellaneous Deductions	Enter any Miscellaneous Deductions. Note: Miscellaneous Deductions for adjustments to Medical Aid (0010), Withholding (0040), OASI (0050) and Medicare (0060) are not included in this column. These amounts are a part of the totals listed in their respective columns
10	Advanced EIC	Enter any advanced EIC. This amount could be negative or positive – be careful to post the correct sign.
11	Net Pay	Automatically calculated. You do not need to enter anything in this column. Note: This amount should balance to Gross Engs + Net Tx Allow less all deductions.
12	Deferred Comp	Enter any Deferred Comp amount.
13	Dependant Care	Enter any Dependant Care amount.
14	Pretaxed Insurance	Enter any Pretaxed Insurance amount.
15	Total Deferral	Automatically calculated. Totals Columns 8, 12, 13, and 14.
16	Gross Subject to W/H	Automatically calculated. Subtracts Column 15 from Column 3.
17	Non-OASI Gross Wages	Automatically calculated. Adds Columns 13 and 14.

Manual Adjustments – Changes Made In Year-To-Date File, Changes Made To Noncash Gross (Steps 7 and 8) (continued)

Manual warrant issues, Manual warrant/EFT cancellations, and overpayments not collected through the system (continued):

<u>Column Number</u>	<u>Title</u>	<u>Comments: Decide if a Debit (increase) or Credit (decrease)</u>
18	Gross Subj to OASI	Automatically calculated. Subtracts Column 17 from Column 3. Note: If the wage adjustment is for over the Social Security maximum limit for the year, you will need to override the equation and enter "0". (If an adjustment is required on an employee over the SS maximum, call OFM Payroll Consulting for assistance.)
19	Non-Medicare Gross Wages	Automatically calculated. Adds Columns 13 and 14.
20	Gross Subj to Medicare	Automatically calculated. Subtracts Column 19 from column 3.
21	BA – OASI	Automatically calculated. (Should match amount in column 6).
22	BH – Medicare	Automatically calculated. (Should match amount in column 7).
23	BB – Retirement	Enter the employer share of Retirement. For manual warrant/EFT cancellations, use data from the Payroll and Related Costs report. For issues or overpayments, manually calculate this amount.
24	BC – Medical Aid	Enter the employer share of Medical Aid. For manual warrant/EFT cancellations, use data from the Payroll and Related Costs report. For issues or overpayments, manually calculate this amount.
25	BD – Health Insurance	Enter the employer share of Health Insurance <u>only</u> if there is a new cost or a cost to recover. Call OFM Payroll Consulting for assistance because such an action requires confirming eligibility with HCA and other accounting steps.
26	Tax Liability	Automatically calculated field. No entry is required.
27	Tax Deposits	<u>For manual warrant issues:</u> Enter the amount of the deposit made to OST. If a deposit was not made, enter zero. <u>For manual cancellations/overpayments:</u> Enter Zero. You will be asking the IRS for a refund on your current quarter's return.

Non OASI, Non Medicare Wages (Step 9) – Adjustments to Columns 17 & 19

There will most likely always be wages that are not subject to OASI or Medicare taxes each month. In order to properly reflect the wages that are not subject to OASI or Medicare, agencies will need to account for them each month. Doing so will also ensure that the wages subject to OASI and Medicare are correct. An HRISD report entitled Wages Not Subject to Social Security Report (HRISD Report #HRISD-B3101-R01) should be used to obtain non OASI and non Medicare wages. Note the following federal rules:

Compensation Not Subject to OASI includes: Wages over the calendar year OASI maximum (\$94,200 in 2006), Pretax health insurance, dependent care, sick leave buyouts due to death or disability retirement, wages paid for a deceased employee if the payment is made in a calendar year after death, or the employee is in a special employment group not subject to OASI.

Compensation Not Subject to Medicare includes: Pretax health insurance, dependent care, sick leave buyouts due to death or disability retirement, wages paid for a deceased employee if the payment is made in a calendar year after death, or the employee is in a special employment group not subject to Medicare.

There are 2 steps that must be completed:

(1) **Obtain monthly wage totals that are not subject to Social Security and Medicare:**

- Enter both of these wage types from the HRISD Wages Not Subject to Social Security Report. Enter the total of the report at the end of the month. This total figure is a cumulative year-to-date figure. A new Spreadsheet process will automatically subtract the current month's cumulative totals from the prior month's cumulative totals to determine only the current month's Wages Not Subject to Social Security and Medicare. (Any amounts that include deceased wages will be corrected to the accurate total in Step 9.)
- Gross Subject to OASI and Gross Subject to Medicare will automatically be reduced to delete any non subject to amounts.

(2) **Automatic adjustment for deceased employees:**

An adjustment is necessary if a deceased employee payment processed during the month. The current HRISD Wages Not Subject to Report *does not reflect the correct wages not subject to OASI and Medicare for deceased employee payments*. This is explained in Step 6C and entry to a new EE Log for Deceased wage payments will provide the data needed by the Spreadsheet to automatically do the necessary adjustment.

As a precaution, agencies may wish to verify the above two steps and corrections the spreadsheet calculates by verifying and noting the adjustments to each month's hardcopy HRISD Wages Not Subject to Social Security and Medicare Report.

This extra reconciliation is explained in detail on the following page. Agencies may use the following worksheet format to determine what amounts should replace the two incorrect columns of information on the HRISD Wages Not Subject to Social Security/Medicare Report. Start by confirming what the true amount for the deceased employee should be for both the non social security wages and non-Medicare wages on the current cumulative year-to-date basis.

Non OASI, Non Medicare Wages (Step 9) – Adjustments to Columns 17 and 19 (continued)

(A) Add all compensation not subject to OASI (social security) if paid in year of death*:

Wages Over Maximum, including those after death	_____
Pretax health insurance deductions	_____
Dependent Care deductions	_____
Sick Leave Buyout Due to Death or	_____
Disability Retirement	_____
All Wages if employee isn't eligible for OASI	_____
Total Wages Not Subject to Social Security	_____*

(B) On the HRISD Wages Not Subject Report, adjust the Gross Not Subject to Social Security Column for the Deceased Employee's Line Entry and Grand Total:

1. Delete the employee's line amount stated in the report for the deceased employee by removing the incorrect data using the opposite sign (if negative, add back; if positive, credit out).
2. Replace with correct data, adding the amount calculated in Step 2A.
3. Test the employee's YTD social security taxes actually collected to the Gross Subject to Social Security amount in the report. This should only be off by a cent or two. Grand total Wages less Gross Subject to should equal the amount calculated in Step 2A.
4. Retest math, and manually finish adjusting the report grand totals before entering on the spreadsheet. Recheck grand total to ensure final calculation is for only current month.

(C) Add all compensation not subject to Medicare if paid in year of death*:

Pretax health insurance deductions	_____
Dependent Care deductions	_____
Sick Leave Buyout Due to Death or	_____
Disability Retirement	_____
All Wages if employee isn't eligible for Medicare	_____
Total Wages Not Subject to Medicare	_____*

(D) On the HRISD Wages Not Subject Report, adjust the Gross Not Subject to Medicare Column, Deceased Employee's Line Entry and Grand Total:

5. Delete the amount stated in the report for the deceased employee by removing the incorrect data using the opposite sign (if negative, add back; if positive, credit out).
6. Replace with correct data, adding the amount calculated in Step 2A.
7. Test the employee's YTD Medicare taxes actually collected to the Gross Subject to Medicare amount in the report. This should only be off by a cent or two. Grand total Wages less Gross Subject to should equal the amount calculated in Step 2A.
8. Retest math, and manually finish adjusting the report totals before entering on the spreadsheet.

***Note: If compensation is paid in the year AFTER death (example, death in late December, process payment in the next January), then all payments after death are not subject to Social Security and Medicare. In these cases, add another line to the above calculations. Include all payments after death as Not Subject to Social Security and Medicare. (E) Retest the YTD Wages Subject to OASI and Medicare to the respective YTD taxes at this point to ensure an in balance situation is maintained.**

Manual Changes – Changes at Year End Before 941 is Filed But Not Able to be Made in The HRISD YTD File (After YTD File Closes) – Manually Correct Hard Copy Reports (Step 10)

and

Manual Changes – Changes at Year End After 941 is Filed But Not Able to be Made in HRISD YTD File (After YTD File Closes) – Manually Correct Hard Copy Reports (Step 11)

The main difference between posting manual changes to the YTD Spreadsheet in a Step 10 versus Step 11 process is that in Step 10, the Form 941 draft is processed. In Step 11, the Form 941 has already been filed with IRS. Consequently, any manual change will need to be reviewed to determine if a Form 941C should be filed with the next Form 941 that will be submitted to IRS. In both steps, the HRISD YTD file is closed.

If the final processing date to enter Year-To-Date adjustments to the HRISD Year-To-Date File has passed, you will need to make manual changes to the affected Year-To-Date reports (see below).

See Steps 7 and 8 for which columns in the YTD Spreadsheet need adjusting depending on the manual situation that needs to be done.

- Adjustments that need to be made after the December Year-To-Date file closes will need to be done manually. This may involve completing IRS Forms 941c, W-2c, and W-3c.
- ***If the 4th quarter IRS Form 941 has not been sent, change the spreadsheet using Step 10.***
 - Adjust the Form 941 to reflect the correct information.
- ***If the 4th quarter IRS form 941 has been sent, change the spreadsheet using Step 11.***
 - If the adjustment cannot be included with the 4th quarter Form 941 or if the adjustment affects a prior calendar quarter, a Form 941c will need to be completed and sent with the current quarter's Form 941. ***This YTD Spreadsheet process does NOT provide a draft Form 941c.***
- **Note: Enter adjustments in the relevant year's December YTD Spreadsheet that needs correction.**
 - If you find a change that needs to be made after the current year ends, contact OFM Payroll Consulting for assistance. Contact information is listed at the end of this procedure.
 - Enter the revision date in the space provided in the spreadsheet.
 - Enter all manual changes to the HRISD W-2 report and final HRISD Year-To-Date Register for the calendar year affected. Prepare Forms W-2c and W-3c if applicable.
 - Ensure that all Forms W-2, W-2c, 941 and 941c balance every time a new adjustment to a calendar year must be made. See **"PAYROLL YEAR-END FORMS 941/941c and W-2/W-2c BALANCING"** later in this procedure.
 - Repperform the reconciliation of the year's 941/941cs to the year's W-2/W2cs to ensure that year's data for the Social Security Administration (W-2 data) and Internal Revenue Service (941) files stay in balance.

Year To Date Balancing

The following YTD Spreadsheet columns must balance to the respective month's **Year To Date Register**, plus any manual changes necessary at end of the calendar year:

Column Number	Reconcile to the following Data Fields:
• 2 - Allowances (Tax + Non Tax):	Allow Tot
• 3 - Gross Engs + Net Tx Allow:	YTD Gross
• 5 - Withholding:	W/H Tax
• 6 - OASI:	OASI Current
• 7 - Medicare:	Med Current
• 8 - Retirement:	Def Ret
• 10 - Advanced EIC:	EIC
• 12 - Deferred Comp:	Def Comp
• 13 - Dependent Care:	Dep Care
• 14 - Pretax Insurance:	Pretax Ins
• 16 - Gross Subject to Withholding	Gross Subj W/H
• 18 - Gross Subject to OASI	OASI Tot
• 20 - Gross Subject to Medicare	Med Tot Only

Note: If Non Cash is used by the agency, the OASI/Med Tot Columns will not equal the OASI/Med Qtrs columns on the Year To Date Register. The OASI/Med Tot Columns are computed as follows:

OASI Qtrs + OASI Noncash = OASI Tot

Med Qtrs + Med Noncash = Med Tot

If Non Cash is not used by the agency, the OASI/Med Tot and OASI/Med Qtrs columns should equal, and the OASI/Med Noncash columns should be zero.

- The following columns must balance to the **HRISD Wages Not Subject To Social Security Report (including any manual adjustments for deceased employees), both on a cumulative as well as monthly basis (Report only provides cumulative totals):**
 - **17** – Non OASI Gross
 - **19** – Non Medicare Gross
- The following columns must balance to the combined **Payroll and Related Costs reports plus any manual adjustments** for the month being reconciled (manual changes after payroll has run will not be reflected on the HRISD's Distribution of Related Costs Report so it would be correct to be out of balance by manual changes made outside the payroll process):
 - **21** – BA-OASI
 - **22** – BH-Medicare
 - **23** – BB-Retirement
 - **24** – BC-Medical Aid
 - **25** – BD-Health Insurance
- The following columns must balance to the TXL JVs, manual adjustments, and manual deposits made through OST (excluding 941 refunds):
 - **26**– Tax Liability (Balance to payroll system generated deposits (TXL JVS) + tax liabilities for manual issues and less tax liabilities for manual cancellations)
 - **27**– Tax Deposits (Balance to payroll system generated deposits (TXL JVs) + manual deposits)

Computation of IRS Form 941 (Internal Use Only)

There is a tab in the spreadsheet after each quarter that computes most of the IRS Form 941 data. **As long as the spreadsheet is balanced to the correct Year To Date Register each month, the Form 941 worksheet should be correct as calculated, once all data is input into the worksheet.** For your convenience, quarter-to-date totals are included in each month tab. They are located just above the monthly Year-To-Date totals. To complete the Form 941 that is sent to the IRS, there are some amounts that may need to be entered in the worksheet manually:

- Line 1: Number of employees who receive wages, tips, or other compensation for the pay period including Mar 12 (Quarter 1), June 12 (Quarter 2), Sept 12 (Quarter 3), Dec 12 (Quarter 4)
- Line 4: If no wages, tips, and other compensation are subject to social security or Medicare tax, check here. It is not likely that you will use this check box.
- Line 7B: **Current Quarter's Sick Pay:** This amount included adjustments for the employee share of Social Security and Medicare taxes withheld by a third-party sick pay payer. This is rarely used – call OFM Payroll Consulting to verify usage.
- Line 7C: **Current Quarter's Adjustments for Tips and Group Term Life Insurance:** This field should not be needed. Call OFM Payroll Consulting to verify usage. See the IRS Form 941 instructions.
- Line 7D: **Current Year's Income Tax Withholding: Form(s) 941c must be completed if there are prior quarter adjustments.** Only current calendar year adjustments can be submitted to the IRS regarding Federal Income Tax.*
- Line 7E: **Prior Quarter's Social Security and Medicare Taxes:**
 - 1) This line is to bring forward any Social Security or Medicare tax adjustments detailed in an attached Form 941c for a prior current year quarter or any prior calendar year quarter.
 - 2) Input amount of Social Security/Medicare taxes that are for prior quarters.
 - 3) Note: **Form(s) 941c must be completed if there are prior quarter adjustments.**
- Lines 7F and 7G: **Special Additions to Social Security and Medicare:** Per the IRS Form 941 instructions, use these lines only if the IRS has sent you a notice telling you to do so.
- Line 10: Net Taxes must equal line D of the Form Schedule B. A reconciliation is listed on the Worksheet in red titled "Reconciliation: 941 line 13 to Schedule B".
- Line 12: **Balance Due (10-11).** This field will be filled by the Spreadsheet if there are no manual changes. **Note: If you have a balance due, you may be assessed penalties by the IRS if your amount due wasn't deposited according to IRS rules.** See IRS Publication 15 for deposit rules. Deposits made outside of the Payroll System must be deposited timely through OST. Refer to OST procedures. OST contact numbers are (360) 902-8906, 8908, and 8909.

Fractions of Cents: You should verify the amount for reasonableness. Amounts larger than a few dollars may be a signal there is a problem. The one-cent as a positive or negative in the cell labeled Final Reconciliation for Rounding to offset the rounding error is computed and filled automatically to ensure it is entered in the appropriate tax field.

The tab **INTERNAL USE Form 941 XXX qtr** completes an internal use copy of the IRS Form 941 from the draft worksheet. **Note: Use must use the Form 941 supplied by the IRS.** Beginning with the first quarter of 2005, the IRS will optically scan the Forms 941 that are sent to them. The forms printed by the YTD reconciliation spreadsheet are not optically scannable.

Warning! The 941 calculations should look reasonable to you in relation to YTD data. ALWAYS review the Form 941s and Schedule Bs for accuracy before signing and submitting them to the IRS.

Agencies must substantiate all balances due or refunds, from the IRS, due to the agency or to the employee at the specific wage transaction level. If you cannot substantiate these amounts, you will need to do further research until this is resolved and properly documented. Remember, one out of balance figure may actually be the net result of several problems – be persistent!

OFM strongly recommends that you leave the check in the “**Refunded**” box on line 16 rather than applying the overpayment to your next return. The spreadsheet will default with a check in the box if a refund is due on the 941. Applied credits by the IRS can really get confusing. **Ensure that both the Form 941 and an accurately completed Schedule B are sent to the IRS in a timely manner.** See the most recent copy of the IRS Form 941 Instructions for due dates.

* If you are having problems, call OFM Payroll Consulting as early as possible. Last minute calls may result in not giving enough lead time to receive help in completing the Forms 941 and Schedule B in time for filing before the IRS due date.

PAYROLL YEAR-END FORMS 941/941c and W-2/W-2c BALANCING

This final reconciliation and balancing step is **very important**. It is done at year end to ensure all the payroll data sent to the IRS (Forms 941 and 941c) is the exact same amounts forwarded to the Social Security Administration (Forms W-2 and W-2c) for like information.

The IRS will contact agencies if this information does not balance. Agencies are obligated to find the discrepancies and send in corrections. By performing this reconciliation on a timely basis, this task and interest/penalties can be avoided.

Forms 941, 941c, W-2, and W-2c must balance to the final Year-To-Date Register (with any revisions) and the final W-2 Report (with any revisions). The spreadsheet that is used to accomplish this can be found in the **941 TO W-2** Tab.

Cells that require data input are highlighted in yellow. The following data must be input:

- Amounts from the final Year-To-Date Register
- Amounts from the HRISD W-2 Report*
- Totals of all Forms W-2c for the year
- Totals of all Forms 941c for each quarter
- Manual Deposits made for the previous year. Excluding any deposits that were made in the current year for a previous year will allow the 'Difference' column to be reconciled to the net difference of overpayments and balances due to the IRS for the year.

If you are out of balance, you will need to research why and take the appropriate action.

If your Forms 941, W-2, and W-2c do not balance with the W-2 report, the IRS could penalize you.

*OFM recommends that the final HRISD W-2 Report is reconciled to the HRISD 6559 Facsimile Report (W-3 transmittal accompanying W-2 tape information to the Social Security Administration (SSA)). There can be differences and agencies need to be aware of these differences and verify if acceptable. Also, if SSA or IRS sends a Match inquiry to the agency, these differences will need to be addressed. Call HRISD or OFM Payroll Consulting if there are questions.

Potential Issues with Year-To-Date Balancing

There are many data elements that must be entered in order to properly balance each month and at the end of the year. Following are a few common errors:

- Neglecting to balance each payroll to the net pay column.
- Neglecting to include all deferred MDRs for each payroll.
- Taxed Health insurance in the pretax total.
- Neglecting to process a cancelled warrant/EFT through the Payroll System using screen A.13. The employee's W-2 and the taxes paid to the IRS will be overstated.
- Processing a lost or destroyed warrant/EFT through the Payroll system using screen A.13. The employees W-2 and the taxes paid to the IRS will be understated. **Never cancel a warrant through the payroll system if the only problem is a lost or destroyed situation. Warrants are only canceled in the payroll system if the actual calculations are wrong, or was issued in error!**
- Neglecting to process manual warrant/EFT cancellation through the Payroll System using screen A.08. The employees W-2 and the taxes paid to the IRS will be overstated.
- Neglecting to enter the appropriate date in Step 7 or 8 for manual issues or cancellations.
- Neglecting to process manual emergency issued payroll warrants through the Payroll System using screen A.08 additions. The employees W-2 will be understated. Note: If the agency is able to process the manual issue through the Payroll System, no manual Year-To-Date changes will need to be done on screen A.08.
- Neglecting to reconcile actual deposit amounts.
- Neglecting to Reconcile actual liability amounts.
- Neglecting to manually reconcile wages not subject to OASI/Medicare for deceased employees.
- Neglecting to make the necessary Year-To-Date adjustment for VEBA payments.
- Entering manual adjustments in the wrong month in the spreadsheet. If manual adjustments are entered after the processing cutoff for the month (usually around the 23rd), the adjustment will not show on the Year-To-Date Register until the following month.
- Neglecting to investigate erroneous rounding amounts for OASI and Medicare. Rounding amounts can range from a few cents to a few dollars. Amounts larger than that are a signal that there is a problem.
- Adjustments for Workers Comp Sick Leave Buyback. On the A.08 screen adjustments must be completed for GROSS EARNINGS, GROSS SUBJECT TO SS/MEDICARE for **the buyback amount**. A common error is adjusting the GROSS EARNINGS for the buyback amount and adjusting GROSS SUBJECT TO SS for the 0050 deduction and GROSS SUBJECT TO MEDICARE for the 0600 amount. (NOTE – Always screen print A.08 adjustments, and A.75 screen 0050/0060 deductions before, during and after, as backup)

Manual Adjustments – Changes to Prior Calendar Year Reports, YTD Spreadsheets, and Tax Changes

This procedure is being developed and will be included in a future update.

RECONCILING PROBLEM CHEAT SHEET

While OFM has attempted to create a spreadsheet that meets all agency needs, we continue to enhance the product as needs arise. Your input to the OFM Payroll Consulting office is appreciated. If you find during your monthly reconciliation you have recommendations please don't hesitate to share your ideas with OFM. As a joint effort we can better serve your agency. Below is a "Cheat Sheet" created for possible solutions/problems if the spreadsheet is out of balance.

If you find a column is out of balance, follow the column up the spreadsheet and see what affects the total. This helpful hint sometimes indicates a missed entry or a key to where to start looking for potential problems.

If you find several columns are out of balance for the same amount, again, follow those columns up and search the spreadsheet to determine what entry affects all the columns out of balance.

Example: Column 8 and 16 are out of balance. By looking up the spreadsheet you can determine in Step 5 Workers Comp Recovery – VIA Payroll, affects both columns. This is an alert you may have overstated or understated an adjustment.

POSSIBLE SOLUTIONS /ERRORS:

Line 84 highlighted in gray indicates the monthly worksheet is out of balance to the reconciliation source document. Line 84 should be a zero. If there is an amount in Line 84, possible errors/solutions are listed below:

Column 3, 16, 18, and 20 are out of balance:

1. Did you enter all the warrant cancellations?
2. Non Taxable Allowances?
3. VEBA payments? Did you enter the amount as a credit?
4. Did you have a deceased employee?
5. Did you enter the gross pay in the correct column on the EE Log for the deceased employee?
6. Was the deceased employee correctly paid. (No income tax, but subject to OASI and Medicare)?
7. Workers Comp adjustments via personal check?

Column 16, 18, and 20 are out of balance:

1. NonCash Adjustments? A good resource is to check your current month wages not subject to SS report Non Cash Column against your prior month. Reconcile each employee for potential changes and check your log to see if they are in the total non-cash adjustment amount in Step 1.
2. Domestic Partner? Did you have an employee change their status or a new employee that needs to be added to the log? Do you have an employee that needs to be removed from the log for the current month?
3. Manual adjustments?

Column 8 and 16 are out of balance:

1. Retirement adjustments on the A.75?
2. Workers Comp recovery via payroll?

Column 14 is out of balance:

1. Post-taxed (not taxed) deductions?
2. Did you include Health Insurance deductions on all your special payrolls. Check your MDRS.

On manual adjustments to the YTD screen, check to see if the date is after any monthly report run dates. When doing changes to the YTD file, ALWAYS take and save print screens before, during, and after the changes are made.

RECONCILING PROBLEM CHEAT SHEET (continued)

Rounding Problems:

The year-to-date spreadsheet can balance and you can still have employees out of balance.

If you have a rounding total above a few dollars depending on your agency size, you have understated or overstated your wages subject to SS or Medicare and/or you have not collected the correct amount of tax.

If the rounding is a debit you have collected more tax than your wages subject to taxes indicate. In reverse if your rounding is a credit you have overstated your wages subject to taxes and/or have not collect enough tax.

1. Do you have employees out of balance? A report is available from HRISD titled **EMPLOYEE OASI/MEDICARE OUT-OF-BALANCE REPORT REPT NO: B3264-R01 – valuable report!!**
2. Check workers comp sick leave recovery for possible calculation errors.
3. VEBA YTD A.08 adjustments done correctly?
4. Manual A.08 adjustments completed correctly?
 - a. If a manual A.08 adjustment is done incorrectly the HRISD system will adjust to correct for errors. On the Wages not subject to SS report the gross earnings is a calculated total.
 - i. Wages subject to SS + Wages Not Subject to SS + Non cash = Gross Earnings.
 - Example: If an adjustment to Wages Subject to SS is completed and no adjustment to Gross is completed the report will default the adjustment total to Wages Not Subject to SS. Gross wages (Wages Subject to W/H) are not affected.

Line 13 on 941 does not match Line D on the Schedule B:

The amount entered on IRS form 941 line 13 Net taxes, must equal the amount on Schedule B line D, Total for quarter. Line 22 on the “941 X qtr” worksheet tab is a reconciliation to ensure these totals are equal.

1. Did you enter a date in Column A “DATE” for manual entries in steps 7 and 8?
 - a. Do not enter text in the date field.
2. Is the date for the appropriate month/year?

SUGGESTED FILES, FOLDERS, AND LOGS THAT SHOULD BE MAINTAINED:

Tax Deposit Retention File (See Page 11)

Manual log of Non Cash Activity (See Page 12)

Allowance Ledgers (See Page 13)

Same Sex Domestic Partner log (See tab on YTD Spreadsheet titled EE LOG)

Deceased Employee log (See tab on YTD Spreadsheet titled EE LOG)

VEBA File

OFM Resources for Assistance:

Name	Phone Number	Fax Number	E-mail address
Steve Nielson	(360) 664-7681	(360) 664-3388	steve.nielson@ofm.wa.gov
Lynn Rostvold	(360) 664-7777	(360) 664-3388	lynn.rostvold@ofm.wa.gov

Thank YOU for Using the OFM YTD Reconciliation Spreadsheet!

